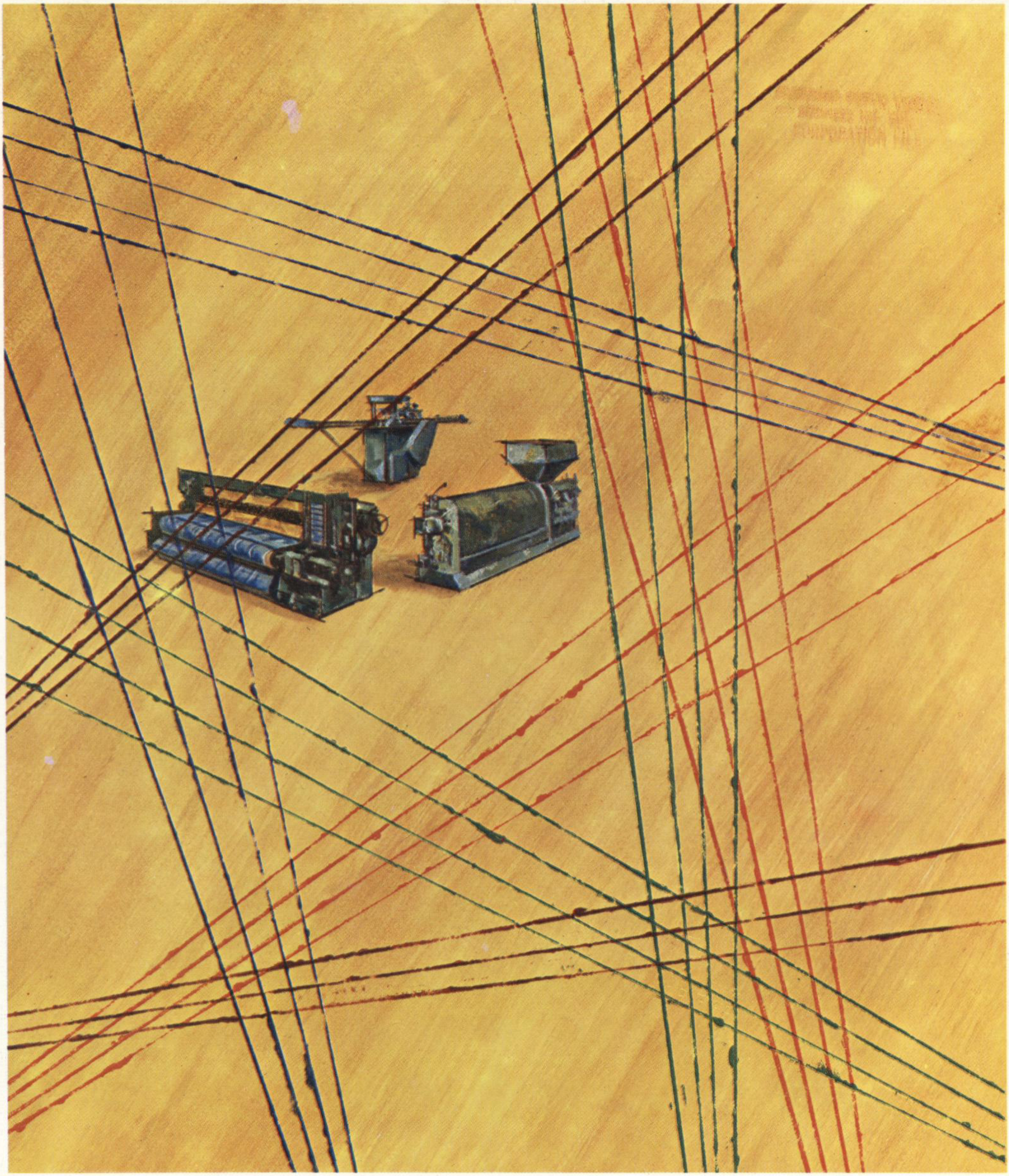

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CORPORATION FILE

1964 ANNUAL REPORT

CROMPTON & KNOWLES CORPORATION

1964 HIGHLIGHTS

	1964	1963
Net sales	$52,354,000	$45,581,000
Net earnings	2,691,000	2,258,000
Stockholders' equity—end of year	28,180,000	26,549,000
Per share:		
Net earnings	$2.77	$2.34
Dividends paid	1.20	1.20
Stockholders' equity	28.63	27.56
Number of stockholders	2996	3104
Number of employees	2772	2505

The cover symbolizes the Crompton & Knowles Corporation of 1964—skilled maker of modern textile, plastics processing and packaging machinery, and supplier of quality dyes and chemicals for related industries.

PRESIDENT'S REPORT

To Our Stockholders:

Another peak in annual sales was reached in 1964. A record $52,354,000 was shipped, $6,773,000 above the previous record of $45,581,000 set in 1963. Three quarters of the increased business came from higher deliveries of textile machinery, which in turn accounted for 63% of total sales.

Net earnings for the year were $2,691,000, or $2.77 a share based on an average of 970,192 shares, an increase of $433,000, or $.43 a share, over 1963.

Two new plants went into operation in 1964—additional chemical production facilities in Gibraltar, Pennsylvania, and new, larger quarters for the plastics processing equipment line in Pawcatuck, Connecticut. An acceleration in demand has forced further expansion, to be completed late this year, of our new chemical plant.

Backlog of customers' orders for machinery is much larger than twelve months ago, and production at all plants has been scheduled well into the year. Deliveries of automotive parts will be significant for the first time in 1965.

Joseph F. Molloy, director and Vice-president, retired at the close of 1964 after 45 years' service. Mr. Molloy, widely known and respected in textile circles, headed our weaving machinery distribution.

The new year is opening on a very active note and, subject to economic conditions at home and abroad, we look forward to another good year in 1965.

Frederic W. Howe, Jr.

January 21, 1965

Frederic W. Howe, Jr.
President

JAMES HUNTER MACHINE CO.
Hunter
NORTH ADAMS MASS.

James H. Hunter, President of the Textile Machinery division, with a new addition to the C&K fabric forming equipment family. This Fiber/Locker produces nonwovens which are capturing a steadily growing share of the textile market.

TEXTILE MACHINERY

Sales of Crompton & Knowles textile machinery in 1964 were substantially above those of 1963, and the increased volume was a major factor in the higher earnings reported. Order backlog at the close of 1964 exceeded materially the position 12 months previous.

Our customers on the whole enjoyed prosperous conditions. A vigorous economy, both here and abroad, contributed to the healthy state of textile affairs. Legislative factors in the United States, notably the elimination of the two-price cotton system, tax incentives, and liberalized depreciation rules stimulated business and led to machinery buying. New textile products, for example stretch fabrics and the use of new fibers, resulted from more intensive research on the part of textile makers; this in turn led to more machinery business for us.

All the plants making up our Textile Machinery division shared in this increased activity. Weaving machinery had a very successful year. Styling trends created an exceptional market for the output of our Jacquard plant, and shipments of certain types of high-speed looms were at record levels.

We moved ahead significantly during the year with new types of machinery for use in fiber preparation and processing, and were unusually busy supplying machinery for the manufacture of nonwoven textiles. An important volume of nonwovens, such as felts and filters, is used industrially. Coupling this with the homeowners' needs in such nonwovens as blankets and disposable fabrics, has meant sustained demand for that type of our machinery.

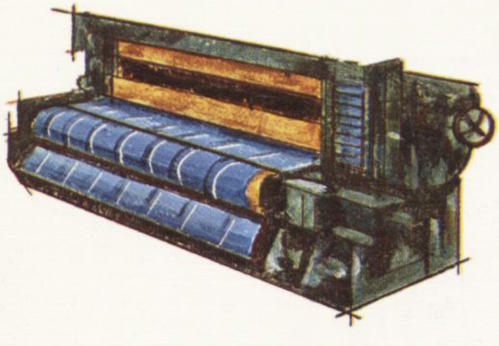
Our first automatic system of fiber blending machinery was introduced many years ago. With our new multi-tuft bale blenders we lead the field with a new concept of automatic fiber blending, thus satisfying an important stage in automated cotton mill operation.

Progress will continue into 1965. Stability in operations and excellence in management are characteristic of textile producers today. Their recognition of the value of updating equipment, and an expected continuance of their practice to do so, should benefit us.

Development of new and better products to anticipate and satisfy customers' needs is essential to our success. Our dedication to this belief was demonstrated in 1964 by the time and money devoted to this effort. Advance models of equipment were introduced at the outstanding textile machinery exhibition in Greenville, South Carolina, in 1964. Work continues on our shuttleless looms, which together with extensive field trials, is needed before they become fully available. The Malimo process has undergone considerable refinement and we have an improved pilot machine near completion.

Higher speeds for our conventional machines, particularly weaving equipment, are looked for and in some cases have been achieved to a remarkable degree. In addition, we have under way further contributions to the now firmly-established trend of automated textile mill operations in the areas of fiber processing and finishing.

Keeping pace with effort directed to new product development is our constant search for ways to make our manufacturing operations and processes more efficient and profitable. New methods are tested and adopted, as for example, advanced technology in engineering utilizing computers to speed new product design.



C&K's textile machinery manufactures a broad range of products. The sportswear shown here was woven on our broad looms and the seat belts on our narrow fabric looms. Automotive floor covering, insulation, and vinyl trim are produced with nonwoven material made on C&K equipment. Blankets are now made by both weaving and nonwoven processes. The range of C&K's diversified products is illustrated by the Chemical division dyes which colored these textiles.

The President of the Chemical division, James W. L. Monkman, examines a chromatography test used to control dyestuff quality and enable C&K to satisfy special customer requests.

CHEMICALS AND DYESTUFFS

1964 was an eventful year for the Chemical division. Sales registered a new record and a market position in color for the dynamic plastics industry was gained with the acquisition of Plastics Color Co., Inc. of Chatham, New Jersey. The new dyestuffs plant at Gibraltar, Pennsylvania, was completed and was producing at designed capacity by the third quarter.

Dyestuffs are a major factor in our chemical business, and sales to the textile industry continue to grow. Increasing use was found for our dyes in nylon, stretch fabrics, sports fabrics, and automobile fabrics.

The strength of our position in specialty dyestuffs is grounded in new product development, skilled technical service, and high quality. The basis for continued emphasis on these factors was laid late in the year by plans for further construction in 1965 of manufacturing facilities at the Gibraltar, Pennsylvania, location. A new research and development laboratory building will also be constructed there in 1965. This will provide needed expansion for speeding important work and will permit the addition to our scientific staff of more personnel to carry on this vital part of our business.

Sales of U.S. Government certified colors to the food and drug field rose during the year. Our entry into the plastics color market through the acquisition mentioned earlier is a relatively minor beginning, but one which shows great promise for growth because of its relation to industries in which we are already established.

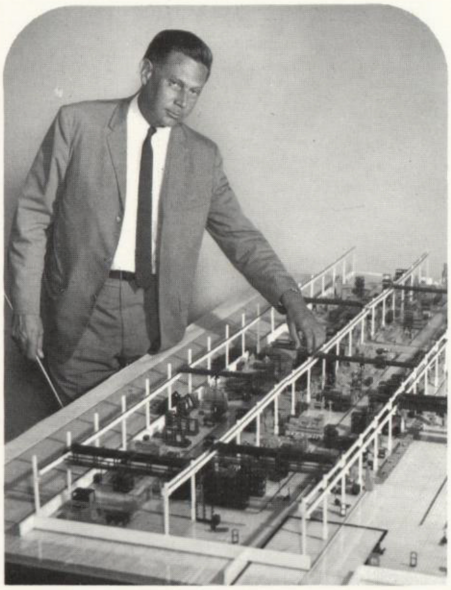
Product lines offered by our Chemical division were broadened considerably during the year. A new system involving a novel process of simultaneous dyeing and finishing of cotton fabrics had a successful introduction toward the close of 1964. It, too, holds great promise. A new series of insoluble colors for ink and plastic applications in the food and drug fields was initiated, and colors of deeper intensity for powdered foods and pharmaceuticals were made available. Colors in the form of concentrates and dispersions were added to the basic dry color business of serving the plastics industry, making us one of the relatively few companies in the United States having so comprehensive an offering on plastic colors.

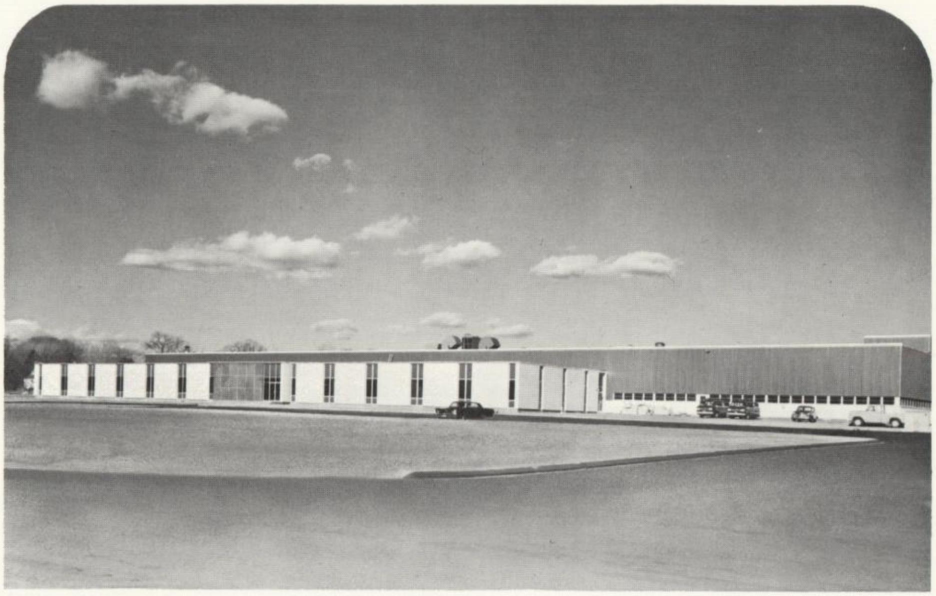
Thus, this division helps industry serve the consumers' needs in many areas essential to today's living. Excellent growth is in prospect—major expansions in plant and equipment either have been recently concluded or are at present under way, deeper penetration of those markets to which we already sell will be accomplished, and an active program for new products and new markets continues in high gear.

These efforts are pointed toward keeping Crompton & Knowles in a position of leadership in specialty chemicals and dyestuffs, and assuring its opportunity to capitalize on the additional potential waiting ahead.

Early in 1964 the corporation suffered a great loss from the untimely death of Felix A. Buskey, then the President of our Chemical division. Mr. Buskey's able direction was of immeasurable value and he has been greatly missed. The presidency has been assumed and the business of the division ably continued by James W. L. Monkman, who brought to Crompton & Knowles more than 20 years of successful management experience in chemicals.

C&K is responsible for the color in this familiar scene. Attractive attire on the mother and child, popular gelatin dessert, plastic toy and dish are all the more appealing with the use of color from our Chemical division.





Philip C. Greene, President of the Davis-Standard division, examines a scale model used in constructing the new plant for plastics processing machinery at Pawcatuck, Connecticut. This new plant, pictured at right, is designed around the "U" flow work principle and employs advanced material handling techniques.

PLASTICS PROCESSING MACHINERY

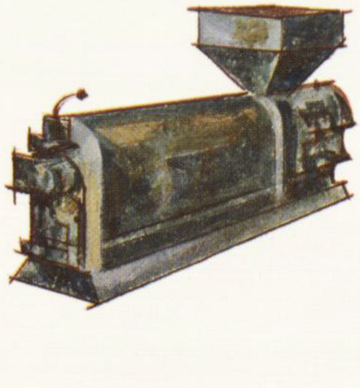
The Davis-Standard division closed the year on a note of great activity, with the second half of 1964 considerably ahead of any previous six month period. Shipments for the year were the second highest in the division's history. New orders booked in 1964 again set a record, running well ahead of 1963. Production well into the new year is represented by the order backlog at the end of 1964.

At the end of the year all operations were being conducted at a new factory at Pawcatuck, Connecticut. The move to this plant, of some 100,000 square feet situated on 30 acres of land, was a decisive step forward for this division. Since its formation in 1848 the business operated continuously in facilities in Mystic, Connecticut, which in the last year or so were completely outgrown. The move to new quarters enables continued growth in volume and the ability to manufacture larger and more diversified types of machinery.

This division sells machinery in two principal markets: the electrical wire and cable industry, and to plastics processing companies who manufacture such plastic items as film, sheet, pipe, and the like. New developments occur rapidly and frequently in these industries. The number of thermoplastic materials processed through our extruders is constantly increasing.

Most commonly known are the many kinds of polyethylene, polyvinyl chloride, polystyrene, nylon, and various types of resins. New product applications for these materials processed on our machinery involve constantly competitive invasions into markets previously restricted to glass, paper, or metal. Packaging is typical of an activity deeply committed to processing by extrusion.

Many areas of equipment development remain open to us. We have thus far concentrated our efforts on machinery to make up complete processing lines for producing film, plastic sheet, plastic pipe, and monofilament fibers. But opportunities for us are present in other lines. For example, the building and construction industries use many forms of extruded plastics: pipes from polyvinyl chloride or polyethylene, gaskets for doors and windows, and rigid siding and shutters. An expanded development program is ahead for this division, and a new research laboratory is being built at the Pawcatuck, Connecticut, site.

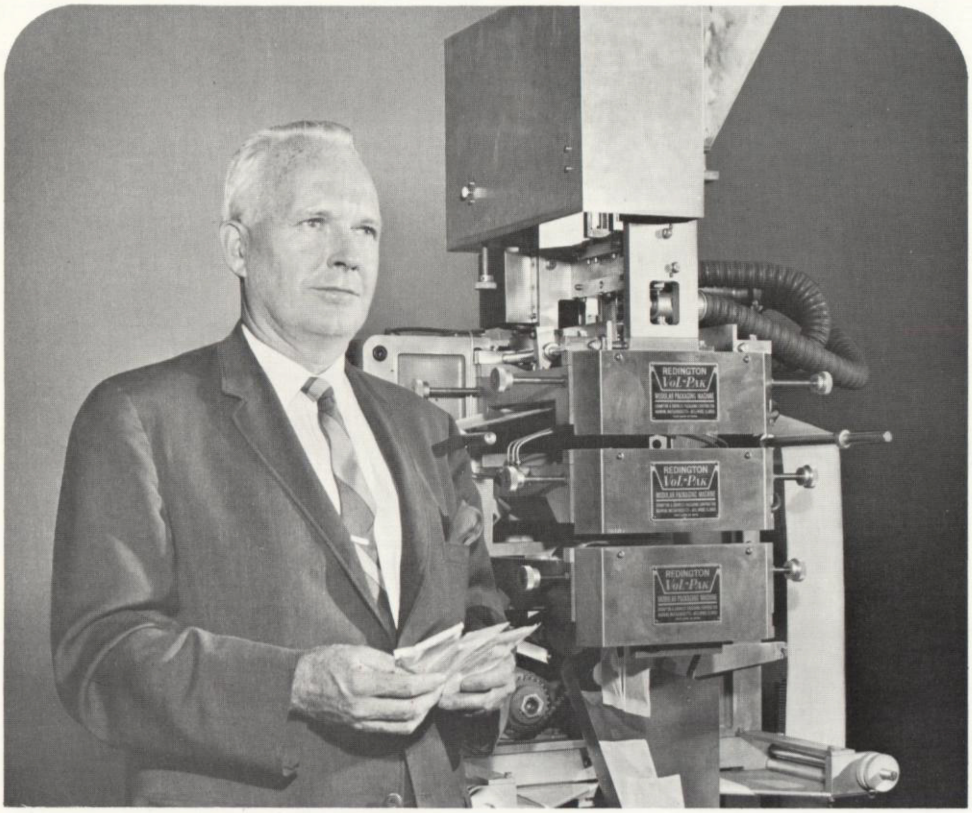


Approximately one out of every eight extruders sold in the United States is made by the Davis-Standard division of Crompton & Knowles. Over the past few years Davis-Standard has grown stronger in the face of severe competition, and is acknowledged to be one of the leaders in a constantly growing industry.

The division's machinery is in use virtually throughout the world. The complete line has been manufactured under license in England since 1956 to serve the United Kingdom and Europe. A newly-formed Japanese venture will produce and sell Davis-Standard equipment in the Far East. Moreover, the division's machinery is manufactured in Canada to serve the Canadian market.

Davis-Standard employs over 300 people, many with long service and of well-organized skills. With its new plant now in operation and a larger research laboratory under way, the Davis-Standard division is to be expected to maintain its position in this rapidly expanding field.

Extrusion of PVC sheet, foamed polystyrene blown film, crosslinked polyethylene cable insulation, synthetic fiber spinning—technical terms describing a few of the processes where Davis-Standard equipment is used. Better known is the merchandise which the equipment helps make available for mass consumption. The plastics industry is a valued customer for both C&K machinery and dyes.



J. Joseph Cranmore, President of the Packaging Machinery division, with the product of one of C&K's new Vol-Pak machines which perform at very high speed the popular strip and pouch packaging.

PACKAGING MACHINERY

The Packaging Machinery division in 1964 enjoyed the most profitable year in its history. The elimination of unprofitable models, improvements in manufacturing efficiency, and trimming costs of doing business, all contributed to this fine record.

This is all the more noteworthy in the face of the larger number of orders delivered in 1964 for machinery designed especially to customer specifications, and the fewer number for standard equipment.

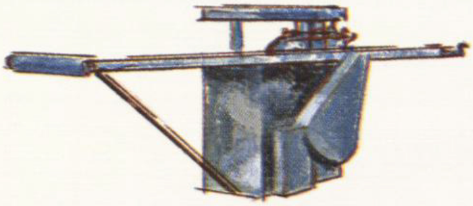
Modern merchandising demands functional as well as attractive packaging. With high-speed cartoners, overwrapping machines, and case packers and handling equipment, our Packaging Machinery division supplies one of the most complete lines available for the specific needs of our customers. Operating speeds averaging up to six packages a second are obtainable.

An outstanding achievement in 1964 was the development of highly specialized machines for wrapping bakery goods. This allowed a difficult packaging job to be done at high speeds for the first time.

A marked turn in foreign countries to packaged goods has become evident in recent times. The increasingly efficient organization abroad of mass markets and distribution methods, and the proliferation there of such American institutions as supermarkets and drug stores, have created a prosperous climate for the packaging machinery business. Shipments to foreign destinations went up in 1964, and products of our English affiliate were in good demand.

Our high-speed machines meet most needs in the packaging line from high-speed cartoning of pharmaceuticals to the tender handling of pastry. The standard lines of our equipment include all kinds of cartoners, multipackers, roll wrappers, overwrappers, strip and pouch packagers, and case openers and sealers. In addition, we sell a wide range of custom designed machines to meet particular packaging requirements.

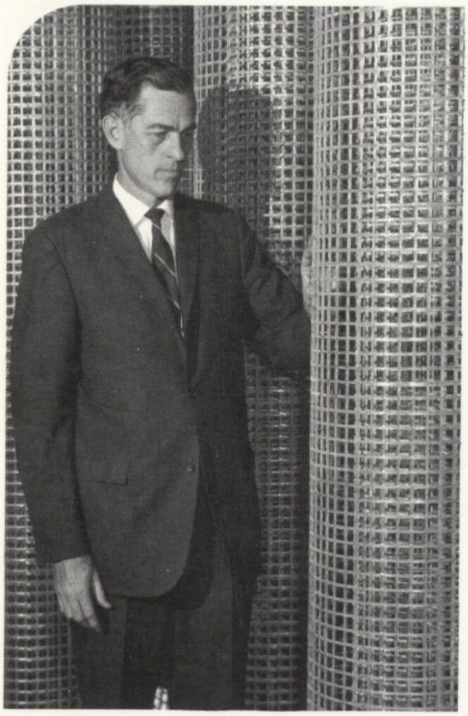
The packaging machinery business is highly competitive and packages, methods, and machines are subject to rapid change. An example of the exploration of new ideas is illustrated in our Liqui-film development. This is a packaging system in which film is formed from molten resins and applied uniformly in a patented process over the products to be wrapped. While this process has not advanced to a commercial production basis, considerable progress was recorded in 1964.



We are aggressively programming new development and a broadening of our line of machinery, for this is an industry characterized by accelerating change and rapid obsolescence. New methods for the better use of longstanding as well as newer wrapping films, high-speed counters and wrappers, and a host of other projects are under way to meet customers' special requirements. Hand in hand with these is the continuous redesign of standard machines to increase speed and output at lower cost as customers' demands advance.

The trademarks Redington, Carton King, Wrap-King, Vol-Pak, Vertomax, and Automax are well known as representative of quality, efficiency, and reliability in packaging. Whether mints, dog food, medicines, or cosmetics, the chances are good that the wrapping was performed on a Crompton & Knowles packaging machine.

Wrap any size or shape, package it, box it—food, drug, confectionery or industrial articles, in tablet, powder, liquid, or solid form—C&K has the right equipment to package the product.



Beetle Plastics division General Manager, Richard C. Bryan, with C&K Firmaline fiberglass reinforced plastic filters which are gaining increasing acceptance in the chemical process industry. At right is Beetle's Safti-Fence providing high voltage protection combined with minimum maintenance and long life at a New York City power installation. Safti-Fence resists corrosion, is electrically non-conductive, easy to install and satisfies most requirements for safety under hazardous conditions.

FIBERGLASS REINFORCED PLASTICS

This division specializes in corrosion-resistant equipment for service chiefly in the chemical processing industries, and to a lesser degree in steel manufacturing and papermaking. Volume shipped in 1964 was higher than in 1963 with consequent benefit to earnings.

Two noteworthy new developments were successfully marketed in 1964. A new process of molding such shapes as ducts, hoods, and certain tanks was instituted and patents applied for. This method controls blends of raw materials and cost reductions of as much as 30% have been noted coincident with improved quality and uniformity. A new line of filter grids, for which patent applications also have been made, was released for sale. Highly corrosion-resistant, these filters are designed for more efficient and lower cost filtration. The same technique is also being used to provide the Safti-Fence shown in the illustration.

Fiberglass reinforced plastics is a relatively minor factor in the total business of Crompton & Knowles, but technical skills of an unusually high order are represented in its management. This, and the consequent superior quality of engineering incorporated into its product, support our belief in a sustained and satisfactory growth in the business for the future.

INTERNATIONAL

Our international marketing effort is one largely devoted to developing those areas of the world where our proven and established products fill a need. Operations continued to expand in 1964.

Much of what we make can be related to the consumer and his standard of living. Thus the output of fabrics such as suitings, undergarments, and towels woven on our box looms increases in proportion to rising living standards abroad and leads to higher demand for our machinery. Plastic films and other products made with our plastics processing equipment provide substitutes for materials otherwise unobtainable or too expensive.

A program is under way to distribute our dyestuffs for nylon and other synthetics to countries where these fibers are produced or consumed. In those areas where such fibers are not now produced, our plastic extruders are being included in the distribution plans.

Recent years have witnessed an extraordinary industrial boom in Japan. The resulting rapid economic improvement there has led to, among other things, a strong demand for packaging of all types. This is being met by Crompton & Knowles with equipment made by our Packaging Machinery division as well as by the packaging films produced on our extruding machinery. To capitalize further on growth prospects in that part of the world, we initiated in 1964 the formation of two corporations jointly owned with leading Japanese industrial concerns for the manufacture there of our packaging and plastics processing machinery.

Our products today are in use in virtually every country in the world. A wide variety of agreements with associates overseas is intended to multiply this use and add further to the division's earning power.

Growth of C&K's International division made its President, William O. Fisher, a frequent global traveler while directing our increasing overseas activity.

ACCOUNTANTS' REPORT

THE STOCKHOLDERS
CROMPTON & KNOWLES CORPORATION:

We have examined the consolidated balance sheet of Crompton & Knowles Corporation and Subsidiaries as of December 31, 1964 and the related statement of consolidated earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Crompton & Knowles Corporation and Subsidiaries at December 31, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated source and use of funds statement presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Worcester, Massachusetts
January 20, 1965

CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Year Ended December 31, 1964 with Comparative Figures for 1963

	1964	1963
Net sales	$52,354,356	$45,580,820
Cost of sales	37,679,301	32,365,079
Gross profit, exclusive of depreciation	14,675,055	13,215,741
Royalties and commissions income	562,304	343,618
Other income, net	98,877	116,726
	15,336,236	13,676,085
Selling, general and administrative expenses	7,516,252	6,810,871
Depreciation	1,167,480	1,097,518
Interest expense	306,904	260,576
	8,990,636	8,168,965
Earnings before income and state taxes	6,345,600	5,507,120
Income and state taxes:		
Federal and foreign taxes on income	3,157,476	2,842,786
State taxes	497,257	406,314
	3,654,733	3,249,100
NET EARNINGS FOR THE YEAR	2,690,867	2,258,020
Retained earnings at beginning of year (1964 includes $27,436 applicable to pooled subsidiary) (note 1)	20,401,930	19,274,634
	23,092,797	21,532,654
Cash dividends paid, $1.20 a share	1,164,232	1,158,160
Retained earnings at end of year	$21,928,565	$20,374,494

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1964

ASSETS

	1964	1963
Current assets:		
Cash	$ 1,831,553	$ 1,776,348
Marketable securities, at cost (approximates market) plus accrued interest	416,691	415,240
Notes and accounts receivable, less allowance for doubtful items $498,882 (1963 – $350,024)	10,225,148	9,321,563
Inventories (note 2)	13,375,696	12,115,794
Prepaid expenses	694,532	607,933
Total current assets	26,543,620	24,236,878
Other investments:		
Other marketable securities, at cost (market 1964 – $571,000)	1,109,650	1,109,650
Investments in foreign joint ventures, at cost	589,153	572,072
Total other investments	1,698,803	1,681,722
Property, plant and equipment (note 3)	11,641,827	11,393,332
Formulae, trademarks, trade names, patents and patent rights, less accumulated amortization $187,757 (1963 – $119,430)	717,000	668,471
Excess of cost of investments in businesses acquired over their net book values	2,792,580	2,792,580
	$43,393,830	$40,772,983

WITH COMPARATIVE FIGURES FOR 1963

LIABILITIES

	1964	1963
Current liabilities:		
Installments on long-term debt (note 4)	$ 113,480	$ 196,480
Accounts payable and accrued expenses	5,323,512	4,236,449
Federal and foreign taxes on income and state taxes	2,790,948	3,085,946
Total current liabilities	8,227,940	7,518,875
Pensions, less current portion included in accrued expenses (note 5)	840,000	746,400
Long-term debt (note 4)	5,070,434	5,383,914
Deferred Federal taxes on income (note 6)	1,075,443	574,835
Stockholders' equity:		
Common capital stock, no par value		
Authorized 1,400,000 shares		
Issued 1,013,292 shares (note 7)	6,333,075	6,333,075
Additional paid-in capital (note 8)	250,065	345,853
Retained earnings	21,928,565	20,374,494
	28,511,705	27,053,422
Less 29,000 shares held in treasury, at cost (1963–50,000 shares)	331,692	504,463
Total stockholders' equity	28,180,013	26,548,959
	$43,393,830	$40,772,983

NOTES TO FINANCIAL STATEMENTS

December 31, 1964

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of the company and all of its wholly-owned and majority-owned subsidiaries. The accounts of the Canadian subsidiaries are stated at their appropriate United States dollar equivalents. All material intercompany transactions have been eliminated in consolidation.

The acquisition of Plastics Color Co., Inc. on March 31, 1964 has been accounted for on the basis of a pooling of interests. Its operations, which are not material in relation to consolidated results, have been included in the consolidated statement of earnings from the date of acquisition.

(2) Inventories:

Inventories at the lower of first-in, first-out cost or market:

	1964	1963
Finished goods and manufactured parts . . .	$ 6,077,163	$ 5,748,167
Work in process . . .	3,187,054	2,812,502
Raw materials and supplies	4,111,479	3,555,125
	$13,375,696	$12,115,794

(3) Property, Plant and Equipment:

Property, plant and equipment at cost:

	1964	1963
Land	$ 473,453	$ 517,506
Buildings and building improvements . . .	7,907,884	7,678,507
Machinery and equipment	12,513,612	11,519,255
Furniture and fixtures and miscellaneous equipment	1,865,236	1,755,664
Patterns, drawings, jigs, fixtures and small tools	1,286,300	1,286,300
Construction in progress	256,697	215,306
	24,303,182	22,972,538
Less accumulated depreciation	12,661,355	11,579,206
	$11,641,827	$11,393,332

(4) Long-term Debt:

	Long-term	Current Installments
20-year 5% sinking fund note payable in annual installments of $265,000 beginning in 1966 . .	$4,500,000	$ —
Noninterest bearing note, maturing $200,000 annually 1966 and 1967 .	400,000	—
Other notes maturing at various dates to 1974 with minimum annual installments of $43,480	170,434	113,480
	$5,070,434	$113,480

(5) Pensions:

During the year, the company amended its principal noncontributory pension plans to provide for the funding of all benefits payable. It is anticipated that past service costs of these plans will be paid over a period not to exceed thirty years. The liability for past service costs under noncontributory retirement plans is estimated at $6,200,000 of which $1,770,000 ($885,000 net after estimated Federal income taxes) is included in the accompanying balance sheet. Of this latter amount, $810,000 net after Federal income taxes, no longer required as a result of the amendments, will be returned to earnings over the next ten years. Pension costs charged to 1964 earnings before Federal income and State taxes were $697,244 (1963—$865,883).

(6) Investment Credit:

Benefits derived from the investment credit provided by the Revenue Act of 1962 are being deferred ratably to future operations. The balance at December 31, 1964, $230,992, is included in Deferred Federal Taxes on Income.

(7) Stock Options:

All options issued under the company's restricted option plan have been granted at not less than 95% of the fair market value of the stock at the time the options were granted.

	Number of Shares	
	Issuable under options granted	Available for future options
Balance December 31, 1963	34,500	10,500
Changes during year:		
Exercised at $8.125 — $9.00 a share or a total of $157,000 compared with a market price of $26.50-$28.00 a share or a total of $490,700.	(17,600)	—
Granted at $32.00 a share	3,000	(3,000)
Cancelled	(2,400)	2,400
Balance December 31, 1964 .	17,500	9,900

Options outstanding at December 31, 1964 were granted at prices of $8.125 — $9.00 a share as to 8,000 shares and $21.25 — $33.50 a share as to 9,500 shares.

Options to purchase 5,600 shares became exercisable during 1964 at $8.125 — $9.00 a share.

(8) Additional Paid-in Capital:

Balance December 31, 1963 . . .	$ 345,853
Add:	
Excess of option price over cost of treasury stock sold under stock options	8,575
Less:	
The excess of the cost of treasury stock of Crompton & Knowles Corporation over the stated value of the capital stock of the Plastics Color Co., Inc. exchanged therefor . .	(104,363)
Balance December 31, 1964 . . .	$250,065

(9) Long-term Leases:

Real estate and production facilities are being leased by the company under long-term agreements. Pertinent details of the leases are summarized below:

	Initial Term (Years)	Expiration Date	Annual Rental
Gibraltar, Pa. plant	20	1984	$80,777
Pawcatuck, Ct. plant	25	1989	120,000
Machinery and equipment	10	1974	58,215
Machinery and equipment	8	1972	109,230

In addition to the annual rentals stated above, the company is required to pay insurance, real estate taxes, maintenance and repairs, etc.

The company has the option to purchase the Gibraltar plant at any time during the period of the lease and the machinery and equipment covered by the 10-year lease after the expiration of two years at prices substantially equivalent to the present value of the unpaid lease payments.

The lease on the Pawcatuck plant, which is owned by one of the company's pension trusts, provides for renewal options of two additional five-year periods and thereafter on a year-to-year basis at an annual rental of 40% of the annual rental during the initial term of the lease.

The eight-year lease on machinery provides for reductions in annual rentals to $77,171 and subsequent unlimited one-year renewals at a nominal rental.

All of the foregoing arrangements were entered into prior to September, 1964.

CONSOLIDATED SOURCE AND USE OF FUNDS

Year Ended December 31, 1964 with Comparative Figures for 1963

	1964	1963
FUNDS WERE PROVIDED BY:		
Net earnings after all charges	$2,690,867	$2,258,020
Charges to earnings, such as depreciation and deferred taxes, not requiring funds	1,838,639	1,560,429
Funds from earnings for the year	4,529,506	3,818,449
Sale of 17,600 (1,668—1963) shares of treasury stock under stock option plan	157,000	15,012
Total funds provided	$4,686,506	$3,833,461
FUNDS WERE USED FOR:		
Cash dividends paid to stockholders at the rate of $1.20 a share	$1,164,232	$1,158,160
Purchase of machinery, equipment and other productive facilities	1,445,479	1,293,079
Retirement of long-term debt	313,480	293,080
Purchase of 3,800 (5,000—1963) shares of treasury stock	108,808	110,617
Additional investment in foreign joint ventures	17,081	41,878
Acquisition of patents and patent rights	16,855	92,908
Other purposes	22,894	22,329
Increase in working capital	1,597,677	821,410
Total funds used	$4,686,506	$3,833,461

RECORD OF GROWTH — 10 YEARS ENDED

	1964	1963	1962	1961
Net sales	$ 52,354,356	45,580,820	44,350,017	32,650,669
Net earnings	$ 2,690,867	2,258,020	1,939,676	2,593,214
Dividends paid	$ 1,164,232	1,158,160	1,158,949	938,209
Capital expenditures (excluding amounts acquired on acquisition of subsidiaries and going businesses)	$ 1,445,479	1,293,079	1,011,087	1,240,703
Depreciation	$ 1,167,480	1,097,518	1,053,456	828,141
Working capital	$ 18,315,680	16,718,003	15,896,593	11,274,220
Long-term debt	$ 5,070,434	5,383,914	5,676,994	1,263,000
Stockholders' equity	$ 28,180,013	26,548,959	25,544,704	23,848,982
Per share:				
Net earnings	$ 2.77	2.34	2.01	2.75
Dividends paid	$ 1.20	1.20	1.20	1.00
Working capital	$ 18.61	17.36	16.45	12.06
Stockholders' equity	$ 28.63	27.56	26.43	25.51
Average shares outstanding	970,192	964,966	965,375	943,792
Ratio of working capital	3.2	3.2	3.4	2.5
Net earnings as a per cent of sales	5.1	5.0	4.4	8.0
Net earnings as a per cent of stockholders' equity at beginning of year	10.1	8.8	8.1	11.4

DECEMBER 31, 1964

1960	1959	1958	1957	1956	1955
31,142,645	22,800,362	18,939,250	19,505,175	23,609,948	19,323,115
2,518,036	1,486,816	811,344	338,761	1,282,155	927,131
898,292	605,804	331,178	336,303	563,476	451,121
1,172,654	762,234	787,010	694,731	447,358	335,057
781,652	695,116	671,647	646,054	626,898	531,788
12,774,861	11,618,552	11,047,940	10,685,422	11,177,007	10,356,250
1,481,555	1,100,000	1,200,000	1,300,000	1,400,000	1,500,000
22,779,963	20,266,054	19,560,342	19,159,049	19,188,941	19,022,643
2.64	1.72	.92	.38	1.43	1.03
1.00	.70	.375	.375	.625	.50
13.26	13.46	12.53	11.96	12.44	11.41
23.65	23.48	22.18	21.44	21.36	20.95
953,292	865,692	883,142	896,808	898,442	902,242
3.4	4.4	5.4	5.1	4.4	4.3
8.1	6.5	4.3	1.7	5.4	4.8
12.4	7.6	4.2	1.8	6.7	4.9

Amounts per share are stated after appropriate adjustments for the stock split effective May 18, 1960 and for the number of shares held in treasury.

OFFICERS AND DIRECTORS

Qualities of a fabric formed on a machine under development are examined by Frederic W. Howe, Jr. and James Barringer.

DIRECTORS

James Barringer
Elected 1959
Executive Vice-president

Edward L. Clifford
Elected 1953
President,
Worcester County National Bank, Worcester

William O. Fisher
Elected 1964
Vice-president

Carl S. Forsythe
Elected 1953
Attorney,
Forsythe, McGovern, &
Fetzer, New York

Frederic W. Howe, Jr.
Elected 1940
President

James H. Hunter
Elected 1962
Vice-president

Joseph F. Molloy
Elected 1957

Albert Palmer
Elected 1940

Arloe W. Paul
Elected 1963
District Sales Manager,
Allen-Bradley Co., New York

William J. Speers, Jr.
Elected 1954
Attorney,
Warner, Stackpole, Stetson
& Bradlee, Boston

Robert W. Stoddard
Elected 1953
President,
Wyman-Gordon Co.,
Worcester

John C. Whitehead
Elected 1960
Partner,
Goldman, Sachs & Co.,
New York

The annual meeting of stockholders will be held at the Company's offices in Worcester on March 29, 1965.

OFFICERS

Frederic W. Howe, Jr.
President

James Barringer
Executive Vice-president
and Treasurer

William O. Fisher
Vice-president

James H. Hunter
Vice-president

Joseph F. Molloy*
Vice-president

Roger R. Bradford
Assistant Treasurer and
Clerk

William J. McLaughlin
Assistant Treasurer
and Comptroller

Howard W. Moore
Assistant Treasurer

*Mr. Molloy retired December 31, 1964

Transfer Agents
First National City Bank,
New York
Worcester County National
Bank, Worcester

Registrars
Morgan Guaranty Trust
Company, New York
Mechanics National Bank of
Worcester, Worcester

Auditors
Peat, Marwick, Mitchell
& Co., Worcester

This entire report is set in type faces made by Società Nebiolo, Turin, Italy, which manufactures Crompton & Knowles machinery for distribution in Europe.

Edward L. Clifford Robert W. Stoddard William O. Fisher

James H. Hunter William J. Speers, Jr.

EXECUTIVE OFFICES: Grand Street, Worcester, Massachusetts

Crompton & Knowles Corporation:
  Textile Machinery Division: Worcester, Mass., North Adams, Mass., Pawtucket, R. I., Mauldin, S. C., Charlotte, N. C., Los Angeles, Calif.
  Chemical Division: Reading, Pa., Gibraltar, Pa., Lansdowne, Pa., Chatham, N. J.
  Davis-Standard Division: Pawcatuck, Conn.
  Packaging Machinery Division: Bellwood, Ill., Agawam, Mass.
  Beetle Plastics Division: Fall River, Mass.
  International Division: Worcester, Mass.

Crompton & Knowles of Canada Limited, Montreal, P.Q., Canada

Crompton & Knowles International Limited, Montreal, P.Q., Canada

Crompton & Knowles-Malimo, Inc., Worcester, Mass.

Arloe W. Paul Carl S. Forsythe John C. Whitehead

Joseph F. Molloy Albert Palmer

CROMPTON & KNOWLES CORPORATION